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TO THE EUROPEAN COMMUNITY

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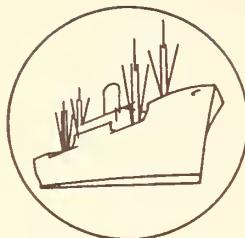
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COST OF THE COMMON AGRICULTURAL POLICY TO THE EUROPEAN COMMUNITY

by
George R. Kruer and Byron Berntson 1/

Introduction

That European consumers and taxpayers bear the cost of the EC's Common Agricultural Policy (CAP) is evident from the higher prices they pay for food in relation to world price levels and from the taxes they pay to support EC agriculture. This report presents an estimate of annual total CAP costs by summing three items. The first two are budgetary and include (1) national and state expenditures by EC governments in support of domestic agriculture and (2) expenditures by the Community's European Agricultural Guidance and Guarantee Fund (FEOGA). The third group consists of excess food costs paid by consumers for CAP-organized commodities produced domestically at prices above those in the world market.

As shown by table 1, the three cost items total an estimated \$14.4 billion. The breakdown is as follows: \$5.5 billion comes from national agricultural budgets, \$2.4 billion is estimated FEOGA expenditure, and \$6.4 billion is excess consumer costs not included in FEOGA expenditures.

Budgetary Costs

National agricultural expenditures not reimbursable from FEOGA consist primarily of subsidies on non-CAP commodities, tax rebates, grants, or loans for structural improvement, and administrative expenses.

Because one-source budget figures were not available for all Member States, there is undoubtedly a comparability gap in the figures presented. The most complete figures are probably those for Germany, France, Italy, and the Netherlands. Budget figures more recent than 1967 were not available for Italy. (Tables 2-6 contain budget breakdowns for each country except Luxembourg.)

The budgets were adjusted to avoid double-counting of FEOGA expenditures. It was assumed that the Belgian, German, and French budgets included gross receipts from FEOGA. Receipts from and contributions to FEOGA are excluded from the Italian budget. For the Netherlands, FEOGA receipts and contributions were already netted out in the Farm Equalization Fund figure, yielding a net receipt which was subsequently subtracted from the

1/ International Monetary and Trade Research Branch, Foreign Development and Trade Division, Economic Research Service.

Table 1.--Cost of the Common Agricultural Policy to the European Community

Cost group	:	Amount
	:	Mil. dol.
National agricultural budgets, European Community Member States:		
Belgium (1968)		89
Netherlands (1968)		241
Germany (1969)		1,234
France (1969)		2,665
Italy (1967)		1,275
Luxembourg (1969)		<u>1/13</u>
Total		5,517
1968/69 estimated FEOGA Expenditures:		
Guarantee Section		2,010
Guidance Section		285
Special Section		<u>138</u>
Total		2,433
Excess consumer costs on domestically produced and consumed commodities:		
Soft wheat		706
Durum wheat		64
Barley		25
Rye		44
Rice		9
Sugar		860
Eggs		281
Poultry		254
Pork		839
Beef and veal		1,950
Butter		1,335
Nonfat dry milk		23
Whole dry milk		47
Cheese		406
Olive oil		36
Subtotal		6,879
Less: double counting of excess cost of feed grain imports		<u>434</u>
Excess consumer costs		<u>6,445</u>
Grand total cost		<u>14,395</u>

1/ It is assumed that this total does not include gross receipts from FEOGA. The source for this figure is Dept. of State Airgram A-001, Luxembourg, Jan. 8, 1969.

total. It was assumed that Luxembourg's budget did not include an estimated \$8-10 million of gross receipts from FEOGA.

FEODA reimburses Member State governments through its Guarantee Section for expenditures on export subsidies and internal market intervention. Its Guidance Section provides grants for structural improvement of production and marketing. For the 3 years ending 1969/70, FEOGA also has a Special Section which compensates grain producers in Germany, Italy, and Luxembourg for income losses following the grain price reductions of July 1, 1967.

The FEOGA budget is financed in part by variable levies collected on agricultural imports and in part by contributions assessed on the Member States. Levies financed an estimated 40 percent of the Guarantee Section in 1968/69. The remainder came from assessments on the Member States according to a fixed percentage scale. Both the Guidance and Special Sections are financed by contributions on a percentage scale.

Determining Excess Consumer Costs

To avoid double-counting the import levies which are included in FEOGA expenditures, the following procedure was used in determining the excess expenditures on food by consumers owing to the CAP:

As a rule, only the quantity of an item under a CAP which is both domestically produced and consumed in the EC enters the calculation. Imports are excluded because the excess cost to consumers of imported commodities is equal to levy receipts and therefore used to finance the already counted FEOGA expenditures. Exports are excluded from the computation since export subsidy costs are included in FEOGA or national budget expenditures, or both. Thus, excess consumer expenditure is calculated by multiplying domestic production minus exports by the EC producer price minus the world price. However, this means the excess cost of any domestic production used as an input to another CAP product, mainly grain used as feed, would be counted twice.

Table 2.--Belgium, proposed national budget for agriculture, 1968

Item	Estimated expenditures
--Million dollars--	
Aids to--	
Crop production.....	70
Animal production.....	59
Scientific research.....	10
Other 1/.....	81
Subtotal.....	220
Minus gross receipts from FEOGA 2/.....	131
Total.....	89
:	

1/ Breakdown unavailable.

2/ It is assumed that Belgium's 1968/69 net contribution to FEOGA is not included in the total, but that gross receipts are included.

SOURCE: Annuaire Statistique de la Belgique, Institut National de Statistique, vol. 88, 1967, p. 399.

Table 3.--The Netherlands, national budget for agriculture, 1968

Item	Estimated expenditures
--Million dollars--	
:	
General expenditures.....	15
Deficit on Farm Equalization Fund.....	48
Development and Reorganization Fund.....	14
Research.....	17
Education.....	42
Land development.....	77
Advisory service.....	13
Veterinary service.....	11
Forestry.....	9
Plant protection.....	3
Fisheries.....	4
Miscellaneous.....	18
Subtotal.....	271
Minus net receipts from FEOGA 1/.....	30
Total.....	241
:	

1/ Net receipts from FEOGA are included in the Farm Equalization Fund figure.

SOURCE: Agriculture Abroad, Canada Department of Agriculture, vol. 22, No. 6, Dec. 1967, pp. 20-21.

Table 4 .--France, proposed national budget for agriculture, 1969

Item	Estimated expenditures
Administration.....	166
Economic measures.....	1,512
Social measures.....	1,354
Reduction of interest.....	3
Investment.....	514
Subtotal.....	3,549
Minus gross receipts from FEOGA <u>1/</u>	884
Total	2,665

1/ It is assumed that the total includes gross receipts from FEOGA.

SOURCE: Rapport General ... sur le projet de loi de finances pour 1969, vol. III, app. No. 6, doc. No. 40 of the French Senate, 1st ordinary session, 1968-69, pp. 27-28.

Table 5.--Italy, national agricultural budget, 1967 1/

Item	Estimated expenditures
Ministry of Agriculture.....	923
Ministry of Health, livestock health problems....	14
Ministry of Public Works, reclamation, etc.....	144
Cassa del Mezzogiorno.....	101
Regional governments.....	93
Total.....	1,275

1/ Assumed to exclude receipts from and contribution to FEOGA.

SOURCE: Annuario dell'Agricoltura Italiana, vol. 21, 1967, Instituto Nationale di Economia Agraria, Rome, 1968.

Table 6.--Germany, proposed budget for agriculture, 1969

Item	Estimated expenditures
	--Million dollars--
A. Federal Budget:	
Improvement of agricultural structures.....	281
Modernization of farm operation.....	30
Social welfare.....	181
Rationalization of marketing.....	52
Improvement of farm income.....	196
Support of fisheries.....	8
Other support measures.....	110
Intervention and similar measures.....	249
Export subsidies.....	98
Other subsidies.....	156
Administration and research.....	33
Total.....	1,394
B. Laender (State) Budgets.	250
C. Tax Reductions for Agriculture.	120
Subtotal.....	1,764
Minus gross receipts from FEOGA 1/.....	530
Total.....	1,234

1/ The total does not include Germany's 1968/69 net contribution to FEOGA but it is assumed to include gross receipts.

SOURCE: Federal budget - FAS Dispatch, GY-9007, Bonn, Jan. 27, 1969. Laender budgets - Bericht der Bundesregierung ueber die Lage der Landwirtschaft, Bonn, Feb. 7, 1969, p. 103. Tax reductions - Statistisches Jahrbuch ueber Ernahrung, Landwirtschaft und Forsten, 1968, Federal Ministry of Food, Agriculture, and Forests, Bonn, 1968, p. 225.

Therefore, for those products with significant use as an input, the quantity to which the price differential is to be applied is industrial plus human use less imports. It is assumed that all imports are for these two uses. This is a back-handed way to get the quantity of a commodity that represents final domestic human and industrial consumption out of domestic production.

This analysis assumes that marketing margins from the producer to the consumer are the same in absolute terms, not percentage terms. That is, consumer prices reflect the same absolute margin no matter which producer price is used, the current EC one or the world price. The rationale is that the marketing margin is determined by the factor costs involved in providing the services. If it is assumed that marketing costs could be reduced so that they represented the same percentage markup, calculations based on the same data suggest that excess consumer costs would be over \$9 billion more. However, this assumption is rejected in favor of the apparently more reasonable one that marketing margins would be the same in absolute terms.

This procedure also assumes that the EC would be able to produce or import all of its needs at current world prices if the CAP's were abolished. This may be true for some commodities, but certainly not all of them. For example, if the EC entered the world market to buy all of its sugar, there is little doubt that the world price of sugar would increase in the short run and probably the long run. However, we have not adjusted the world price. Our price differential is straightforward -- the actual EC producer price less the actual world price.

Nevertheless, an analysis was carried out for each commodity to determine if abolition of the CAP's would have a significant effect on world prices. In summary, for only two commodities -- sugar and beef and veal -- can it be said that the price differentials used, and thus the excess consumer costs, are overstated. For sugar, the overstatement may be around one-third of the differential used, which would mean the excess costs used are overstated by about \$280 million. No firm price increase is ventured for beef and veal. But suppose that world prices increased by 20 percent from the level used of \$388.20 per metric ton. Then the price differential would decline by \$77.64 per ton and the excess consumer costs by \$520 million.

In most cases the time period of both prices is 1967/68. It was chosen because price data were readily available and, more importantly, because it was the first full year of operation for several major commodity groups under the unified CAP system. Quantity data are for 1966/67 (the most recent available for most commodities) except that 1967 was used for eggs. This means the cost is probably understated since 1967/68 was another year of record production. Table 7 shows the quantities and prices used in deriving excess consumer costs by commodity.

Since the excess cost of imported feed grains is in FEOGA and in the final excess cost of livestock, an adjustment was made to reduce gross excess consumer costs by this amount (See bottom of table 1 and table 7.) Oats and corn were not included since virtually all production is used as an input to the livestock sector. Because sunflower and rapeseed producers receive deficiency payments, which are in FEOGA, all oilseeds and products enter at world prices. Therefore, sunflower and rapeseed production was excluded from the calculation. Fruit and vegetable production has received only minimal protection through higher prices and so was not included.

Table 7.--Quantity and price details used in deriving excess consumer costs

Commodity	Production	Exports	Imports	Human use	Industrial use	Collected	Used to get Col. 7	Used to get Col. 7	Quantity used to get Col. 7	EC price per metric ton	World price per metric ton	Difference per ton
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)			
	1,000 metric tons	1,000 metric tons	1,000 metric tons	Dollars	Dollars	1,000 dollars						
Soft wheat.....	24,507	4,358	2,790	17,029	52	4+5-3	14,291	107.30	57.90	49.40	705,975	
Durum wheat.....	1,802	121	1,490	2,873	0	4+5-3	1,383	1/126.64	80.70	45.94	63,535	
Barley.....	12,366	1,211	1,875	120	2,816	4+5-3	1,061	80.28	56.70	23.38	25,018	
Rye.....	3,475	29	265	1,368	103	4+5-3	1,206	93.75	57.48	36.27	43,742	
Rice.....	578	165	312	611	74	2/1-2	326	179.60	153.40	26.20	8,541	
Sugar.....	5,568	643	985	---	---	3/1+3-2	5,910	223.50	78.00	145.50	859,905	
Eggs.....	2,265	---	---	---	---	1	2,265	511.40	387.50	123.90	280,633	
Poultry.....	1,496	26	68	---	---	1-2	1,470	723.30	550.00	173.30	254,751	
Pork.....	4,794	131	---	---	---	1-2	4,663	567.10	387.10	180.00	839,340	
Beef & veal.....	6,804	120	---	---	---	1-2	6,684	680.00	388.20	291.80	1,950,391	
Butter 4/.....	1,247	72	9	1,145	---	4	1,145	1,874.40	708.50	1,165.90	1,334,956	
Nonfat dry milk: ---	---	---	35	122	5	4+5-3	92	412.48	165.34	247.14	22,737	
Whole dry milk: ---	---	---	20	133	0	4+5-3	113	863.10	443.12	419.98	47,458	
Cheese.....	1,855	109	111	---	---	1-2	1,746	865.00	632.50	232.50	405,945	
Olive oil.....	353	19	108	465	7	1-2	334	1/806.20	698.40	107.80	36,005	
Subtotal.....												6,878,932
Less: 5/												
Corn & sorghum: Excess consumer costs.....	---	---	12,844	---	---	3	12,844	90.10	56.30	33.80	434,127	

Excess consumer costs.....

Corn & sorghum: Excess consumer costs.....

Note: All quantity data are for 1966/67 except eggs which are calendar year 1967. Reference period for price data varies according to commodity but is mostly for 1967/68.

-- Not necessary for calculation or is insignificant.

1/ Excluding a deficiency payment of \$34.76 for durum wheat and \$350 for olive oil.

2/ Times a factor of 0.79 for husking.

3/ Treated differently because of French production in overseas areas.

4/ Butterfat tonnage converted to butter by multiplying by a factor of 1.16 (but this factor might be as high as 1.20).
5/ Necessary to avoid double-counting excess cost of feed grain imports used as an input to the livestock sector.